

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|-----------------------------------|---|-----------------|
| Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: <u>City of Lincoln Park, Michigan</u> | County Wayne |
| Audit Date June 30, 2005 | Opinion Date November 23, 2005 | Date Accountant Report Submitted To State: December 29, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

| | | | |
|---|--------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): Plante & Moran, PLLC | | | |
| Street Address 27400 Northwestern Highway | City Southfield | State MI | ZIP 48034 |
| Accountant Signature  | | | |

City of Lincoln Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Lincoln Park, Michigan

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Lincoln Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lincoln Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not maintained a complete record of its fixed assets due to the exclusion of certain City-owned land. The value of City-owned land, which has not been determined by the City, should be recorded in the capital assets of the governmental activities.

In our opinion, except for the effects on the financial statements of the omission of the City-owned land as explained in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and City Council
City of Lincoln Park, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln Park, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005 on our consideration of the City of Lincoln Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 23, 2005

City of Lincoln Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Lincoln Park's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please review it in conjunction with the City's financial statements.

Reviewing the Annual Report

The annual report covers multiple financial statements. The statement of net assets and the statement of activities supply data about the activities of the City as a whole and provide information regarding the City's finances. For government activities, these statements provide long-term and short-term information about the City's overall status. Financial reporting is similar to that found in the private sector with its basis in full accrual accounting. Fund financial statements show City operations in more detail than government-wide statements, as they provide information about the City's most important funds.

Financial Highlights

Due to this year's operations, the City's net assets are as follows: Net assets of business-type activities were \$22,570.0 thousand and net assets of governmental activities were \$46,190.9 thousand.

- The current year's expense total was \$29,846.7 thousand as compared to the \$27,472.1 thousand generated in fees and charges, grants, general revenues, and taxes for governmental programs. In the previous year, expenses were \$30,655.0 thousand as compared to the \$27,923.9 thousand generated in tax and other revenues for governmental programs.
- For business-type activities, city revenues were \$7,738.2 thousand. Expenses were \$6,937.3 thousand.
- The annual cost of all city programs was \$36,784.0 thousand. The previous year's cost was \$37,237.6 thousand.

In an effort to bring costs under control, the number of employee classifications at the Department of Public Services was cut from 18 to 4. This fits in with the mayor and City Council consolidating positions and offering early retirement incentives.

One of the main initiatives was to offer employees near retirement the time they had accumulated and allow them to retire early. No extra cash incentive was offered in this program. Those positions were either replaced on a different pay/benefit scale or were not replaced at all. Along with this step, new employees have been moved to a defined contribution plan and health savings accounts. Labor contracts were renegotiated and a 0 percent wage increase concession was given to the City by police and fire until 2007, and the remainder of the employees until 2009.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The City has switched active employees to a 10/20/30 co-pay plan for prescription drugs. Prescriptions are a large monthly expense and costs could be reduced under this plan. A goal for the future would be to move retirees toward these types of plans.

Regarding the water and sewer system, the City has adjusted billing rates to offset the cost increases it incurs yearly. In addition, there has been a more aggressive strategy to collect delinquent water and sewer bills.

The City as a Whole Analysis

Because the statement of net assets and the statement of activities provide facts about the City as a whole, the statements can help determine if a city's financial condition has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private corporations. All current year revenues and expenses are included. It does not matter when cash is paid or received.

These statements give an account of the City's net assets and any changes in those assets. However, to truly judge the condition of the City, some nonfinancial factors, such as diversification of the taxpayer base or the condition of the City's infrastructure, must be considered in addition to the financial information provided in this report.

The statement of net assets and the statement of activities divide the City into two types of activities:

- **Governmental Activities** - The City's basic services are accounted for in this section, including the police, fire, public works, recreational and cultural departments, community and economic development, and general administration. Property taxes, state revenue sharing, franchise fees, and state and federal grants finance the majority of these activities.
- **Business-type Activities** - These activities are reported in the fund financial statements and generally report services for which the City charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water utilities. We provide water to residents, which we purchase from the Detroit Water System. We provide sewage treatment through a county-operated sewage treatment plant.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Detailing the Most Important Funds

The fund financial statements provide detailed information about the most important funds of the City. Certain funds are mandated by State law and by bond agreements. Other funds are established to manage money, meet legal requirements, or for certain taxes or grant funding.

- **Government Funds** - Basic services are reported in government funds. Government fund financial statements detail how money flows in and out of the funds and reports the balances left at year end that are on hand for disbursement. Government funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund accountability focuses on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the next term.

Budgetary comparison statements are included in the basic financial statements for the General Fund and major Special Revenue Fund (the Community Development Block Grant Fund). These statements and schedules demonstrate compliance within the City adopted and final revised budget.

- **Proprietary Funds** - Proprietary funds are those the City charges for services it provides, both to city units and outside customers. Proprietary funds are reported in the statement of net assets and the statement of revenues, expenses and changes in fund net assets. The City's enterprise funds, a component of proprietary funds, are the same as the business-type activities we report in the government-wide statements, but they give more detailed information such as cash flow.

City Serving as Trustee

Due to trust arrangements, the City is often accountable for assets that can only be used for trust beneficiaries. All of these trustee proceedings are detailed in separate statements of fiduciary net assets and changes in fiduciary net assets. Because the City cannot use these assets to finance its operations, these activities are not included in other financial statements. However, the City must be certain the assets detailed in these funds are used for their intended purposes.

Notes to Financial Statements

The notes provide additional information that is necessary for a full understanding of the data provided in the accompanying financial statements.

Other Information

In addition to the financial statements and notes, this report contains supplementary information and details of the accompanying financial statements.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

TABLE I - Net Assets (in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets | | | | | | |
| Current and other assets | \$ 10,111.6 | \$ 12,240.1 | \$ 3,052.7 | \$ 2,905.9 | \$ 13,164.3 | \$ 15,146.0 |
| Capital and restricted assets | 44,324.1 | 45,709.7 | 34,621.8 | 34,617.3 | 78,945.9 | 80,327.0 |
| Total assets | 54,435.7 | 57,949.8 | 37,674.5 | 37,523.2 | 92,110.2 | 95,473.1 |
| Liabilities | | | | | | |
| Current liabilities | 5,712.6 | 6,359.0 | 2,189.9 | 1,972.2 | 7,902.5 | 8,331.2 |
| Long-term liabilities | 2,532.2 | 3,025.2 | 12,914.6 | 13,782.0 | 15,446.8 | 16,807.2 |
| Total liabilities | 8,244.8 | 9,384.2 | 15,104.5 | 15,754.2 | 23,349.3 | 25,138.4 |
| Net Assets | | | | | | |
| Invested in capital assets - Net of related debt | 43,654.9 | 44,857.9 | 16,990.2 | 15,858.3 | 60,645.1 | 60,716.2 |
| Restricted | 2,173.3 | 1,778.6 | 3,849.3 | 3,926.8 | 6,022.6 | 5,705.4 |
| Unrestricted (deficit) | 362.7 | 1,929.1 | 1,730.5 | 1,983.9 | 2,093.2 | 3,913.0 |
| Total net assets | <u>\$ 46,190.9</u> | <u>\$ 48,565.6</u> | <u>\$ 22,570.0</u> | <u>\$ 21,769.0</u> | <u>\$ 68,760.9</u> | <u>\$ 70,334.6</u> |

City as a Whole

The City's combined net assets from the previous year were \$70,334.6 thousand as compared to \$68,760.9 thousand this year. However, net assets and expenses from governmental and business-type activities must be reviewed separately. Table I focuses on the net assets and Table 2 focuses on changes in the net assets of the City's governmental and business-type activities.

The City's net assets for governmental activities were \$46,190.9 thousand this year as compared to \$48,565.5 last year. Unrestricted net assets were \$1,929.1 thousand last year as compared to \$362.7 thousand this year. Unrestricted net assets are those that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net assets of the City's business-type activities were \$22,570.0 thousand this year as compared to \$21,769.0 thousand last year.

City revenues for the current year were \$35,210.3 thousand as compared to \$35,716.5 thousand in the previous year. The total yearly cost of all programs and services was \$36,784.0 thousand as compared to \$37,237.6 thousand in the previous year.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2 - Change in Net Assets (in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|---------------------|--------------------------|-------------------|--------------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Restricted: | | | | | | |
| Charges for services | \$ 2,881.0 | \$ 3,536.7 | \$ 5,974.3 | \$ 5,980.8 | \$ 8,855.3 | \$ 9,517.5 |
| Restricted operating grants | 4,085.6 | 4,160.4 | - | - | 4,085.6 | 4,160.4 |
| Restricted capital grants | - | 37.5 | - | - | - | 37.5 |
| General revenue: | | | | | | |
| Property taxes | 14,555.9 | 14,054.5 | 1,709.7 | 1,760.9 | 16,265.6 | 15,815.4 |
| Interest and investment income | 218.6 | 259.7 | 54.2 | 50.9 | 272.8 | 310.6 |
| Other general revenues | 5,731.0 | 5,875.1 | - | - | 5,731.0 | 5,875.1 |
| Total revenues | 27,472.1 | 27,923.9 | 7,738.2 | 7,792.6 | 35,210.3 | 35,716.5 |
| Expenses | | | | | | |
| Program expenses: | | | | | | |
| General government | 4,035.0 | 4,726.4 | - | - | 4,035.0 | 4,726.4 |
| Public safety | 14,202.3 | 14,079.1 | - | - | 14,202.3 | 14,079.1 |
| Public works | 8,186.0 | 8,630.7 | - | - | 8,186.0 | 8,630.7 |
| Culture and recreation | 2,063.9 | 2,015.6 | - | - | 2,063.9 | 2,015.6 |
| Community development | 1,352.1 | 1,201.9 | - | - | 1,352.1 | 1,201.9 |
| Interest on long-term debt | 7.4 | 1.3 | - | - | 7.4 | 1.3 |
| Business activities - Water and/or sewer | - | - | 6,937.3 | 6,582.6 | 6,937.3 | 6,582.6 |
| Total expenses | 29,846.7 | 30,655.0 | 6,937.3 | 6,582.6 | 36,784.0 | 37,237.6 |
| Increase (Decrease) in Net Assets | \$ (2,374.6) | \$ (2,731.1) | \$ 800.9 | \$ 1,210.0 | \$ (1,573.7) | \$ (1,520.9) |

Governmental Activities

This year's governmental activities revenues were \$27,472.1 thousand as compared to \$27,923.9 thousand last year. The year's governmental activities cost was \$29,846.7 thousand as compared to \$30,655.0 thousand in the previous year.

In the past year, the government of the City of Lincoln Park has been able to take on necessary projects in tough financial times. As of the end of fiscal year 2004/2005, Lincoln Park was in the process of soliciting bids for a comprehensive intersection and street improvement program. This initiative will provide benefits to the City's infrastructure.

The Department of Public Services is once again carrying out a sidewalk replacement program in the City. Safer sidewalks result in fewer injuries and may offer a decrease in costly lawsuits. The DPS will also have a large role in future improvements to City infrastructure. These improvements may include improvements to the sewer system and storm drains.

Employee learning is a key goal for the City of Lincoln Park. This will include department heads setting performance objectives for the coming year(s) in the budget, and a plan for more training of all employees in the future.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Lincoln Park has brought in a firm to handle janitorial responsibilities in many of the City buildings. Hopes are that this firm will be able to reduce janitorial costs and effectively carry out their duties.

In addition, Lincoln Park has acquired a lot of property that it is unable to utilize. There is also a large amount of property in which ownership must be explored. This property is being evaluated and sold if applicable to bring in revenue for an otherwise stagnant property. This will give the City more of a tax stream and will also get the City out of paying maintenance costs associated with the upkeep of these unused properties.

Business-type Activities

This year's business-type activities revenues (see Table 2) were \$7,738.2 thousand as compared to \$7,792.6 thousand last year. This year's expenses were \$6,937.3 thousand as compared to \$6,582.6 thousand in the previous year. These figures are somewhat due to the following reason:

The only business activity currently is the Water and Sewer Fund. This fund is still falling short of expenditures, even after the 14 percent rate increase that has been put into place. An evaluation of this fund will take place and rate adjustments will continue to be made based on the cost of running the system.

General Fund Budgetary Statements

The City Council revisits the budget several times during the year. The current year's budget focuses on the General Fund, major funds, and on availability of fund resources.

The General Fund has met the goal of continuing to provide services to residents while remaining financially solvent. Spending into the General Fund, fund balance in fiscal year 2004/2005 reached \$1.8 million. Steps must be taken to curb this trend in the near future. Lincoln Park is still financially solvent, but the rising costs of employee benefits, including health care and retiree pension plans, are quickly wearing away at the fund.

The mayor and Council adopted successful plans that have helped to eliminate the spending trends from the General Fund fund balance. These plans have been effective by consolidating positions, renegotiating contracts, and implementing spending controls.

The intention of City management is to eliminate the use of fund balance in the coming years, and the goal would be to begin to add to those funds within the next few years. Further measures need to be taken to ensure that the City remains financially solvent.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

City Funds

The analysis for the City's major funds begins on page 14, following the government-wide financial statements. The City's major funds include the General Fund, the Community Development Block Grant Fund, and the Water and Sewer Fund. This report reflects that, at year end, the City reported a total governmental fund balance of \$4,668.8 thousand as compared to \$6,535.6 thousand in the previous year.

The General Fund supports most of the City's governmental services through the use of property taxes, state revenue sharing, and fees and charges. The largest expenditure incurred within the General Fund was in the area of public safety, which totaled \$14,976,354.

Although not a major fund, another key fund in Lincoln Park is the Street Improvement Fund. Funds were generated through property taxes for the specific use of improvements to aging infrastructure.

Capital Assets

TABLE 3 - Capital Assets at Year End (Net of depreciation, in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ - | \$ - | \$ 16.5 | \$ 16.5 | \$ 16.5 | \$ 16.5 |
| Equipment | 1,555.7 | 1,783.6 | 1,504.0 | 1,393.8 | 3,059.7 | 3,177.4 |
| Buildings and improvements | 1,371.6 | 1,412.5 | 333.8 | 190.5 | 1,705.4 | 1,603.0 |
| Infrastructure | 39,612.7 | 40,592.0 | 28,600.1 | 28,724.6 | 68,212.8 | 69,316.5 |
| Vehicles | 1,784.1 | 1,921.6 | 318.1 | 364.9 | 2,102.2 | 2,286.5 |
| Total | <u>\$ 44,324.1</u> | <u>\$ 45,709.7</u> | <u>\$ 30,772.5</u> | <u>\$ 30,690.3</u> | <u>\$ 75,096.6</u> | <u>\$ 76,399.9</u> |

At the close of the year, the City had invested \$75,096.6 thousand in capital assets such as land, buildings and improvements, equipment, or infrastructure (see Table 3). \$76,399.9 thousand was invested in similar assets last year.

Currently, plans are in the works to obtain bids for dump trucks. A wood chipper is also being added to capital assets. These pieces of equipment are necessary in continuing to bring a high quality of service to residents.

TABLE 4 - Outstanding Debt at Year End (In thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|-------------------|--------------------------|--------------------|--------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| General obligation bonds (backed up the City | \$ - | \$ - | \$ 13,782.4 | \$ 14,832.1 | \$ 137,782.4 | \$ 14,832.1 |
| Other bonds or outstanding obligations | 3,186.1 | 3,923.1 | 289.5 | - | 3,475.7 | 3,923.1 |
| Total | <u>\$ 3,186.1</u> | <u>\$ 3,923.1</u> | <u>\$ 14,071.9</u> | <u>\$ 14,832.1</u> | <u>\$ 17,258.0</u> | <u>\$ 18,755.1</u> |

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Debt Management

At the close of the year, the City had \$17,258.0 thousand in outstanding bonds and notes as compared to \$18,755.1 thousand in the previous year (see table 4).

Economic Issues/Upcoming Yearly Budgets

Elected officials considered many issues when establishing the upcoming year's budget, tax rates, and fees.

The main goal of the upcoming budget is to eliminate spending into reserves. The mayor and City Council have adopted a plan that includes offering certain employees accumulated time at today's rates. No additional funds were spent on this program. Also, labor negotiations included a movement to a defined contribution plan, retirement health care benefit plan, and a 10/20/30 prescription co-pay.

A problem the City will be facing in upcoming budgets will be the question of available funding for retiree health care. In the past, this retiree benefit has been directly expensed through the General Fund. With the financial implications this imposes on the General Fund, the plan is to eliminate funding for this expenditure. In future years, alternatives to the current method of funding will be researched and strongly considered.

The City would also like to embark in a five-year capital projects plan that will help to improve the aging infrastructure. This will include street improvements, sewer improvements, park updates, and the purchasing/maintenance of equipment that is vital for Lincoln Park to continue to provide the highest quality services possible to its residents.

Contact Information

This report has been created to give our citizens, taxpayers, customers, investors, and creditors a summary of City finances and to show how its revenues are used. If you have any questions regarding this report, or if you need additional financial information, please contact:

Steve M. Duchane, City Manager
Suzanne B. Moreno, Director of Finance
1355 Southfield Road
Lincoln Park, Michigan 48146
Phone: 313-386-5440
Fax: 313-386-2205
sduchane@citylp.com
smoreno@citylp.com

City of Lincoln Park, Michigan

Statement of Net Assets June 30, 2005

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 3,909,088 | \$ 1,256,229 | \$ 5,165,317 | \$ 677,585 |
| Receivables: | | | | |
| Taxes | 872,217 | 93,246 | 965,463 | - |
| Customers | - | 2,210,370 | 2,210,370 | - |
| Special assessments | 26,968 | - | 26,968 | - |
| Loans receivable | 2,332,796 | - | 2,332,796 | 94,407 |
| Accrued interest and other - Net of allowance for uncollectible taxes of \$178,000) | 764,910 | 1,552 | 766,462 | - |
| Due from other governmental units | 1,445,382 | - | 1,445,382 | - |
| Internal balances | 558,355 | (558,355) | - | - |
| Due from component units | 99,447 | 1,782 | 101,229 | - |
| Deposits and other assets | 17,579 | - | 17,579 | - |
| Inventories | 84,877 | 47,792 | 132,669 | - |
| Restricted assets (Note 8) | - | 3,849,239 | 3,849,239 | - |
| Capital assets - Net (Note 5) | 44,324,084 | 30,772,567 | 75,096,651 | 172,070 |
| Total assets | 54,435,703 | 37,674,422 | 92,110,125 | 944,062 |
| Liabilities | | | | |
| Accounts payable | 628,065 | 986,455 | 1,614,520 | 12,137 |
| Accrued and other liabilities | 1,695,742 | 46,104 | 1,741,846 | 94,406 |
| Due to primary government | - | - | - | 101,229 |
| Deferred revenue (Note 4) | 2,734,877 | - | 2,734,877 | - |
| Noncurrent liabilities (Note 7): | | | | |
| Due within one year | 653,908 | 1,157,251 | 1,811,159 | 60,000 |
| Due in more than one year | 2,532,231 | 12,914,639 | 15,446,870 | 120,000 |
| Total liabilities | 8,244,823 | 15,104,449 | 23,349,272 | 387,772 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 43,654,934 | 16,990,207 | 60,645,141 | 172,070 |
| Restricted: | | | | |
| Streets and highways | 1,614,678 | - | 1,614,678 | - |
| Debt service | 558,582 | 2,239,017 | 2,797,599 | - |
| Sewer improvements | - | 1,610,222 | 1,610,222 | - |
| Unrestricted | 362,686 | 1,730,527 | 2,093,213 | 384,220 |
| Total net assets | \$ 46,190,880 | \$ 22,569,973 | \$ 68,760,853 | \$ 556,290 |

City of Lincoln Park, Michigan

| | Program Revenues | | | |
|--|-----------------------------|----------------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 4,035,045 | \$ 377,420 | \$ 13,703 | \$ - |
| Public safety | 14,202,256 | 1,292,732 | 210,371 | - |
| Public works | 8,185,990 | 702,027 | 2,505,977 | - |
| Community and economic development | 1,352,135 | 5,713 | 1,346,422 | - |
| Recreation and culture | 2,063,848 | 503,085 | 9,100 | - |
| Interest on long-term debt | 7,366 | - | - | - |
| Total governmental activities | 29,846,640 | 2,880,977 | 4,085,573 | - |
| Business-type activities - Water and Sewer | 6,937,328 | 5,974,333 | - | - |
| Total primary government | <u>\$ 36,783,968</u> | <u>\$ 8,855,310</u> | <u>\$ 4,085,573</u> | <u>\$ -</u> |
| Component units: | | | | |
| Downtown Development Authority | \$ 510,636 | \$ - | \$ - | \$ - |
| Economic Development Corporation | 72,968 | 38,094 | 25,000 | - |
| Total component units | <u>\$ 583,604</u> | <u>\$ 38,094</u> | <u>\$ 25,000</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Property taxes: | | | | |
| City operating and rubbish | | | | |
| Retention basin and Downriver sewer system | | | | |
| Road maintenance | | | | |
| Downtown Development Authority | | | | |
| Total property taxes | | | | |
| State-shared revenues | | | | |
| Unrestricted investment earnings | | | | |
| Franchise fees | | | | |
| Gain on sale of assets | | | | |
| Total general revenues | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year | | | | |
| Net Assets - End of year | | | | |

Statement of Activities
Year Ended June 30, 2005

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|--------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (3,643,922) | \$ - | \$ (3,643,922) | \$ - |
| (12,699,153) | - | (12,699,153) | - |
| (4,977,986) | - | (4,977,986) | - |
| - | - | - | - |
| (1,551,663) | - | (1,551,663) | - |
| (7,366) | - | (7,366) | - |
| (22,880,090) | - | (22,880,090) | - |
| - | (962,995) | (962,995) | - |
| (22,880,090) | (962,995) | (23,843,085) | - |
| - | - | - | (510,636) |
| - | - | - | (9,874) |
| - | - | - | (520,510) |
| 12,581,820 | - | 12,581,820 | - |
| - | 1,709,697 | 1,709,697 | - |
| 1,974,040 | - | 1,974,040 | - |
| - | - | - | 312,565 |
| 14,555,860 | 1,709,697 | 16,265,557 | 312,565 |
| 5,375,610 | - | 5,375,610 | - |
| 218,616 | 54,160 | 272,776 | 19,186 |
| 350,724 | - | 350,724 | - |
| 4,646 | - | 4,646 | 101,708 |
| 20,505,456 | 1,763,857 | 22,269,313 | 433,459 |
| (2,374,634) | 800,862 | (1,573,772) | (87,051) |
| 48,565,514 | 21,769,111 | 70,334,625 | 643,341 |
| \$ 46,190,880 | \$ 22,569,973 | \$ 68,760,853 | \$ 556,290 |

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2005

| | Major Funds | | | |
|--------------------------------------|---------------------|---|---------------------|--------------------------------|
| | General | Community Development Block Grant | Nonmajor Funds | Total Governmental Funds |
| | Fund | Fund | | |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 1,556,624 | \$ 433,351 | \$ 1,919,113 | \$ 3,909,088 |
| Receivables: | | | | |
| Taxes | 787,128 | - | 85,089 | 872,217 |
| Special assessments | - | - | 26,968 | 26,968 |
| Loans receivable | - | 2,332,796 | - | 2,332,796 |
| Other | 386,504 | - | 2,267 | 388,771 |
| Due from other governmental units | 1,051,954 | - | 393,428 | 1,445,382 |
| Due from other funds (Note 6) | 873,834 | - | 705,101 | 1,578,935 |
| Due from component units | 99,035 | - | 412 | 99,447 |
| Deposits and other assets | 17,579 | - | - | 17,579 |
| Inventories | 84,877 | - | - | 84,877 |
| Total assets | <u>\$ 4,857,535</u> | <u>\$ 2,766,147</u> | <u>\$ 3,132,378</u> | <u>\$ 10,756,060</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 572,566 | \$ 29,418 | \$ 26,081 | \$ 628,065 |
| Accrued and other liabilities | 1,638,328 | 1,084 | 37,325 | 1,676,737 |
| Due to other funds (Note 6) | 138,874 | 59,220 | 822,486 | 1,020,580 |
| Deferred revenue (Note 4) | 58,452 | 2,676,425 | 26,968 | 2,761,845 |
| Total liabilities | 2,408,220 | 2,766,147 | 912,860 | 6,087,227 |
| Fund Balances | | | | |
| Reserved for inventories | 84,877 | - | - | 84,877 |
| Unreserved - Reported in: | | | | |
| General Fund | 2,364,438 | - | - | 2,364,438 |
| Special Revenue Funds - Designated | - | - | 696,799 | 696,799 |
| Special Revenue Funds - Undesignated | - | - | 922,609 | 922,609 |
| Debt Service Funds | - | - | 558,582 | 558,582 |
| Capital Projects Fund | - | - | 41,528 | 41,528 |
| Total fund balances | 2,449,315 | - | 2,219,518 | 4,668,833 |
| Total liabilities and fund balances | <u>\$ 4,857,535</u> | <u>\$ 2,766,147</u> | <u>\$ 3,132,378</u> | <u>\$ 10,756,060</u> |

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2005

| | |
|--|--------------|
| Fund Balance - Total Governmental Funds | \$ 4,668,833 |
|--|--------------|

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|--------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds | 44,324,084 |
| Special assessment and grant receivables are expected to be collected over several years, and are not available to pay for current year expenditures | 26,968 |
| Personal property receivables are expected to be collected over several years, and are not available to pay for current year expenditures | 376,139 |
| Accrued interest payable is recorded as a liability in governmental activities | (19,005) |
| Compensated absences are included as a liability in governmental activities | (1,706,989) |
| Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds | <u>(1,479,150)</u> |

| | |
|---|-----------------------------|
| Net Assets - Governmental Activities | <u>\$ 46,190,880</u> |
|---|-----------------------------|

City of Lincoln Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

| | Major Funds | | | |
|--|---------------------|---|---------------------|--------------------------------|
| | General | Community Development Block Grant | Nonmajor Funds | Total Governmental Funds |
| | Fund | Fund | | |
| Revenue | | | | |
| Property taxes | \$ 12,581,820 | \$ - | \$ 1,795,133 | \$ 14,376,953 |
| Federal sources | 48,435 | 1,085,976 | 3,500 | 1,137,911 |
| State sources | 5,519,901 | - | 2,502,477 | 8,022,378 |
| Licenses and permits | 2,348,527 | - | - | 2,348,527 |
| Fines and forfeitures | 1,286,445 | - | - | 1,286,445 |
| Interest and rentals | 185,649 | - | 33,717 | 219,366 |
| Other | 464,499 | 266,159 | 34,849 | 765,507 |
| Total revenue | 22,435,276 | 1,352,135 | 4,369,676 | 28,157,087 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,031,486 | - | 132,702 | 4,164,188 |
| Public safety | 14,464,065 | - | 379,587 | 14,843,652 |
| Public works | 3,809,874 | - | 3,939,442 | 7,749,316 |
| Community development | - | 1,352,135 | - | 1,352,135 |
| Recreation and culture | 1,906,111 | - | - | 1,906,111 |
| Capital outlay | - | - | 8,450 | 8,450 |
| Total expenditures | 24,211,536 | 1,352,135 | 4,460,181 | 30,023,852 |
| Excess of Expenditures Over Revenue | (1,776,260) | - | (90,505) | (1,866,765) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 367,438 | 367,438 |
| Transfers out | - | - | (367,438) | (367,438) |
| Total other financing sources (uses) | - | - | - | - |
| Net Change in Fund Balance | (1,776,260) | - | (90,505) | (1,866,765) |
| Fund Balances - Beginning of year | 4,225,575 | - | 2,310,023 | 6,535,598 |
| Fund Balances - End of year | <u>\$ 2,449,315</u> | <u>\$ -</u> | <u>\$ 2,219,518</u> | <u>\$ 4,668,833</u> |

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ (1,866,765)**

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|-------------|
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation | 2,589,638 |
| Capital assets used in governmental activities are not considered financial resources; as such, depreciation recorded on those assets is not considered an activity of the funds | (3,975,204) |
| Delinquent personal property tax revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end | 181,907 |
| Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end | (33,763) |
| Lawsuit settlement is not due and payable in the current period and is not reported in the funds | (120,000) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 182,646 |
| Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred | (7,366) |
| Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities | 674,273 |

Change in Net Assets of Governmental Activities **\$ (2,374,634)**

City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

| | Major Fund | Nonmajor Fund | |
|---|----------------------|------------------|----------------------|
| | Water and Sewer Fund | Development Fund | Total |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 3) | \$ 1,175,348 | \$ 80,881 | \$ 1,256,229 |
| Receivables: | | | |
| Taxes | 93,246 | - | 93,246 |
| Customers | 2,210,370 | - | 2,210,370 |
| Other | 1,552 | - | 1,552 |
| Due from component unit | 1,782 | - | 1,782 |
| Inventories | 47,792 | - | 47,792 |
| Restricted assets - Current portion (Note 8) | 1,054,128 | - | 1,054,128 |
| Total current assets | 4,584,218 | 80,881 | 4,665,099 |
| Long-term assets: | | | |
| Restricted assets - Long-term portion (Note 8) | 2,795,111 | - | 2,795,111 |
| Capital assets (Note 5) | 30,772,567 | - | 30,772,567 |
| Total assets | 38,151,896 | 80,881 | 38,232,777 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 984,140 | 2,315 | 986,455 |
| Accrued and other liabilities | 46,104 | - | 46,104 |
| Due to other funds (Note 6) | 558,355 | - | 558,355 |
| Current liabilities payable (Note 7) | 103,123 | - | 103,123 |
| Current liabilities payable from restricted assets (Note 8) | 1,054,128 | - | 1,054,128 |
| Total current liabilities | 2,745,850 | 2,315 | 2,748,165 |
| Long-term debt - Net of current portion (Note 7) | 12,914,639 | - | 12,914,639 |
| Total liabilities | 15,660,489 | 2,315 | 15,662,804 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 16,990,207 | - | 16,990,207 |
| Restricted (Note 8) | 3,849,239 | - | 3,849,239 |
| Unrestricted and undesignated | 1,651,961 | 78,566 | 1,730,527 |
| Total net assets | <u>\$ 22,491,407</u> | <u>\$ 78,566</u> | <u>\$ 22,569,973</u> |

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2005

| | Major Fund | Nonmajor Fund | |
|---------------------------------------|-------------------------|---------------------|----------------------|
| | Water and Sewer Fund | Development Fund | Total |
| Operating Revenue | | | |
| Sale of water | \$ 2,434,531 | \$ - | \$ 2,434,531 |
| Sewage disposal charges | 3,173,809 | - | 3,173,809 |
| Other | 365,993 | - | 365,993 |
| Total operating revenue | 5,974,333 | - | 5,974,333 |
| Operating Expenses | | | |
| Cost of water | 1,232,544 | - | 1,232,544 |
| Cost of sewage disposal | 1,722,483 | - | 1,722,483 |
| Operation and maintenance | 381,261 | - | 381,261 |
| General and administrative | 1,484,271 | - | 1,484,271 |
| Depreciation | 1,043,528 | - | 1,043,528 |
| Other | 506,054 | - | 506,054 |
| Total operating expenses | 6,370,141 | - | 6,370,141 |
| Operating Loss | (395,808) | - | (395,808) |
| Nonoperating Revenue (Expense) | | | |
| Property taxes | 1,709,697 | - | 1,709,697 |
| Investment income | 54,160 | - | 54,160 |
| Interest expense | (567,187) | - | (567,187) |
| Total nonoperating revenue | 1,196,670 | - | 1,196,670 |
| Change in Net Assets | 800,862 | - | 800,862 |
| Net Assets - Beginning of year | 21,690,545 | 78,566 | 21,769,111 |
| Net Assets - End of year | <u>\$ 22,491,407</u> | <u>\$ 78,566</u> | <u>\$ 22,569,973</u> |

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

| | Major Fund Water and Sewer Fund | Nonmajor Fund Development Fund | Total |
|--|---------------------------------------|--------------------------------------|---------------------|
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 5,422,621 | \$ - | \$ 5,422,621 |
| Payment to suppliers | (3,643,342) | - | (3,643,342) |
| Payments to employees for wages and benefits | (1,283,152) | - | (1,283,152) |
| Other receipts | 365,993 | - | 365,993 |
| Net cash provided by operating activities | 862,120 | - | 862,120 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Collection of property taxes | 1,726,893 | - | 1,726,893 |
| Payment to County Debt Service Fund | (782,602) | - | (782,602) |
| Purchase of capital assets | (1,125,679) | - | (1,125,679) |
| Principal paid on debt | (530,000) | - | (530,000) |
| Interest paid on debt | (343,245) | - | (343,245) |
| Net cash used in capital and related financing activities | (1,054,633) | - | (1,054,633) |
| Cash Flows from Investing Activities - Interest received on investments | 28,892 | - | 28,892 |
| Net Decrease in Cash and Cash Equivalents | (163,621) | - | (163,621) |
| Cash and Cash Equivalents - July 1, 2004 | 3,901,191 | 80,881 | 3,982,072 |
| Cash and Cash Equivalents - June 30, 2005 | <u>\$ 3,737,570</u> | <u>\$ 80,881</u> | <u>\$ 3,818,451</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and cash equivalents | \$ 1,175,348 | \$ 80,881 | \$ 1,256,229 |
| Restricted assets (Note 8) | 1,783,227 | - | 1,783,227 |
| Total | <u>\$ 2,958,575</u> | <u>\$ 80,881</u> | <u>\$ 3,039,456</u> |
| Reconciliation of Operating Loss to Net Cash from Operating Activities | | | |
| Operating loss | \$ (395,808) | \$ - | \$ (395,808) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | | |
| Depreciation and amortization | 1,043,528 | - | 1,043,528 |
| Changes in assets and liabilities: | | | |
| Increase in receivables | (185,558) | - | (185,558) |
| Increase in accounts payable | 193,413 | - | 193,413 |
| Increase in compensated absences and lawsuit settlement | 289,530 | - | 289,530 |
| Decrease in accrued and other liabilities | (82,985) | - | (82,985) |
| Net cash provided by operating activities | <u>\$ 862,120</u> | <u>\$ -</u> | <u>\$ 862,120</u> |

There were no noncash transactions during 2005.

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

| | Pension and Other Employee Benefits Trust Funds | Agency Funds |
|--|---|------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,181,391 | \$ 13,386 |
| Investments at fair value: | | |
| Common stock | 20,680,174 | - |
| U.S. government securities | 8,357,753 | - |
| U.S. government agencies | 8,560,914 | - |
| Corporate bonds | 5,090,787 | - |
| Mutual funds | 3,485,875 | - |
| Accrued interest | 250,151 | - |
| | | |
| Total assets | 50,607,045 | <u>\$ 13,386</u> |
| Liabilities | | |
| Accounts payable | 520 | \$ - |
| Accrued and other liabilities | - | 13,386 |
| | | |
| Total liabilities | 520 | <u>\$ 13,386</u> |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 50,606,525</u> | |

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

| | Pension and Other Employee Benefits Trust Funds |
|---|---|
| Additions | |
| Contributions: | |
| Employer | \$ 1,864,708 |
| Plan members | 987,189 |
| Health benefit | <u>345,240</u> |
| Total contributions | 3,197,137 |
| Investment earnings: | |
| Net increase in fair value of investments | 1,999,613 |
| Interest and dividends | 1,915,467 |
| Less investment expenses | <u>(417,589)</u> |
| Total investment earnings | <u>3,497,491</u> |
| Total additions | 6,694,628 |
| Deductions | |
| Benefit payments | 6,147,716 |
| Refunds of contributions | 9,774,418 |
| Administrative expenses | <u>27,497</u> |
| Total deductions | <u>15,949,631</u> |
| Net Decrease in Plan Net Assets | (9,255,003) |
| Net Assets Held in Trust for Pension and Other Employee Benefits | |
| Beginning of year | <u>59,861,528</u> |
| End of year | <u><u>\$ 50,606,525</u></u> |

City of Lincoln Park, Michigan

Component Units Statement of Net Assets June 30, 2005

| | Downtown Development Authority | Economic Development Corporation | Totals |
|----------------------------------|--------------------------------------|--|-------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 294,095 | \$ 383,490 | \$ 677,585 |
| Loans receivable | - | 94,407 | 94,407 |
| Land | 172,070 | - | 172,070 |
| Total assets | 466,165 | 477,897 | 944,062 |
| Liabilities | | | |
| Accounts payable | - | 12,137 | 12,137 |
| Deferred revenue | - | 94,406 | 94,406 |
| Due to primary government | 69,331 | 31,898 | 101,229 |
| Noncurrent liabilities (Note 7): | | | |
| Due within one year | 60,000 | - | 60,000 |
| Due in more than one year | 120,000 | - | 120,000 |
| Total liabilities | 249,331 | 138,441 | 387,772 |
| Net Assets | \$ 216,834 | \$ 339,456 | \$ 556,290 |

City of Lincoln Park, Michigan

| | | Program Revenues | |
|----------------------------------|--------------------------|-------------------------|--------------------------|
| | | Charges for | Operating |
| | Expenses | Services | Grants/ Contributions |
| Governmental activities: | | | |
| Downtown Development Authority | \$ 510,636 | \$ - | \$ - |
| Economic Development Corporation | <u>72,968</u> | <u>38,094</u> | <u>25,000</u> |
| Total governmental activities | <u>\$ 583,604</u> | <u>\$ 38,094</u> | <u>\$ 25,000</u> |

General revenues:

Property taxes
Gain on sale of land
Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|--|-------------------|
| Downtown Development Authority | Economic Development Corporation | Total |
| \$ (510,636) | \$ - | \$ (510,636) |
| - | (9,874) | (9,874) |
| (510,636) | (9,874) | (520,510) |
| 312,565 | - | 312,565 |
| - | 101,708 | 101,708 |
| 10,266 | 8,920 | 19,186 |
| 322,831 | 110,628 | 433,459 |
| (187,805) | 100,754 | (87,051) |
| 404,639 | 238,702 | 643,341 |
| \$ 216,834 | \$ 339,456 | \$ 556,290 |

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Lincoln Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lincoln Park, Michigan:

Reporting Entity

The City of Lincoln Park, Michigan is governed by an elected six-member Council and the mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Units

- a. The Building Authority is a City-created and City-directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.
- b. The City of Lincoln Park Police and Fire Retirement System and Municipal Employees' Retirement System have also been blended into the City's financial statements. Both systems are governed by five-member pension boards. The mayor and one City Council member sit on each board. Two members of the board are elected by the participants. In addition, the City Council appoints one City resident to each board. The systems are reported as if they were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems.

Discretely Presented Component Units

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of eight individuals, is appointed by the mayor. The appointment is subject to approval by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

- b. The Economic Development Corporation (EDC) is reported in a separate column to emphasize that it is legally separate from the City. The EDC was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council and mayor.

The component units above do not issue separate financial statements.

The City has excluded the Lincoln Park Housing Commission from this report because the City is not able to impose its will on the Housing Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds, fiduciary funds, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following three major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for the resources of federal grant revenues, which are restricted for use in assisting the City with community development.

Note I - Summary of Significant Accounting Policies (Continued)

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Police and Fire Retirement System, the Municipal Employees' Retirement System, and the Retirees' Health Benefit Fund, which accumulate resources for pension and postretirement health benefit payments to qualified police and fire and municipal employees.

Agency Funds - The Agency Funds are used to account for assets held by the City in a trustee capacity for other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has not elected to apply private sector standards issued after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown as net of allowance for uncollectible amounts.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1. The taxes are due on February 28 before they are added to the county tax rolls. Taxpayers not paying one-third of the tax by August 20, one-third by October 15, and the balance by February 28 are subject to penalties. Property tax receivables are shown net of allowance for uncollectible amounts.

The 2004 taxable valuation of the City totaled \$674 million, on which ad valorem taxes levied consisted of 16.1258 mills for the City's operating purposes, 2.4187 mills for refuse, 2.7356 mills for road construction, 1.3000 mills for Ecorse Creek debt, and 1.2000 mills for Downriver Sewage Disposal System debt. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Funds financial statements as taxes receivable - current or as tax revenue.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. General Fund fund balance has been reserved in an amount equal to the cost of the inventory. The inventory includes gasoline and supplies for machinery and equipment.

Restricted Assets - The restricted assets in the Water and Sewer Fund consist of cash and cash equivalents restricted to provide for the replacement of water and sewer assets. Also, monies received from a tax levy are restricted for the payment of outstanding Water and Sewer Fund debt. In addition, restricted assets result from the establishment of debt reserves related to county sewage disposal system bonds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City using different individual costs and estimated useful lives, depending on the different asset uses and classifications. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has not capitalized any City-owned land.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|-------------|
| Roads and sidewalks | 25 years |
| Water and sewer distribution systems | 20-75 years |
| Buildings and building improvements | 10-45 years |
| Vehicles | 5-20 years |
| Machinery and equipment | 10-45 years |

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law.

The budget process begins with goals and objectives meetings in April with the City Council and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and the City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each April, department heads receive workpapers to prepare their individual line item budgets. Upon completion, the departmental budgets are returned to the controller in May. The finance director then analyzes these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

A proposed, balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in May, provide all interested citizens an open forum where they can be heard. Upon review and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget is scheduled for adoption at the first regular City Council meeting in June. The operating millage rate is established as part of the budget adoption resolution at that meeting.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)".
- Capital outlay financed with debt is budgeted net of the related debt proceeds.

The budget comparison for the General Fund and Major Special Revenue Fund, as adopted by the City Council, is included as required supplemental information. Budget comparisons for other Special Revenue Funds (except for the Compensated Absences Fund, which was not budgeted) are available at City Hall.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, there were no significant expenditures in excess of the amounts budgeted.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The Pension Trust Funds and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965 and Public Act 149 of 1999, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$2,537,195 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment | Fair Value | Weighted Average Maturity |
|--------------------------|--------------|---------------------------------|
| U.S. Treasury securities | \$ 8,357,753 | 4.3 years |
| U.S. Agency securities | 8,505,491 | 2.7 years |
| Corporate bonds | 5,090,787 | 5.0 years |

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Rating | Fair Value | Rating Organization |
|-----------|--------------|------------------------|
| AAA | \$ 5,313,034 | S&P |
| AA | 99,660 | S&P |
| AA- | 63,161 | S&P |
| A+ | 2,095,666 | S&P |
| A | 1,472,745 | S&P |
| A- | 751,667 | S&P |
| BBB+ | 61,791 | S&P |
| BBB | 80,987 | S&P |
| BBB- | 89,517 | S&P |
| Not Rated | 11,961,804 | N/A |

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. In addition, the City has made loan to homeowners and assessed liens for rehabilitation projects paid for with grant funds. Program income is recognized as the loans and liens are repaid. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|------------------|---------------------|
| Special assessments | \$ 26,968 | \$ - |
| Grant and program income payments received prior to meeting all eligibility requirements | - | 402,081 |
| Rehabilitation liens and loans | - | 2,332,796 |
| Total | <u>\$ 26,968</u> | <u>\$ 2,734,877</u> |

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

| | Balance July 1, 2004 | Additions | Disposals | Balance June 30, 2005 |
|---|-------------------------|-----------------------|-------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets being depreciated: | | | | |
| Roads and sidewalks | \$ 91,738,334 | \$ 2,250,074 | \$ - | \$ 93,988,408 |
| Buildings and improvements | 5,993,585 | 37,518 | - | 6,031,103 |
| Vehicles | 4,437,475 | 98,330 | 294,646 | 4,241,159 |
| Equipment | 4,965,601 | 203,716 | - | 5,169,317 |
| Subtotal | 107,134,995 | 2,589,638 | 294,646 | 109,429,987 |
| Accumulated depreciation: | | | | |
| Roads and sidewalks | 51,146,377 | 3,229,331 | - | 54,375,708 |
| Buildings and improvements | 4,581,047 | 78,418 | - | 4,659,465 |
| Vehicles | 2,515,892 | 235,818 | 294,646 | 2,457,064 |
| Equipment | 3,182,029 | 431,637 | - | 3,613,666 |
| Subtotal | 61,425,345 | 3,975,204 | 294,646 | 65,105,903 |
| Net capital assets being depreciated | <u>\$ 45,709,650</u> | <u>\$ (1,385,566)</u> | <u>\$ -</u> | <u>\$ 44,324,084</u> |

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2004 | Additions | Balance June 30, 2005 |
|---|-------------------------|------------------|--------------------------|
| Business-type Activities | | | |
| Capital assets not being depreciated - Land | \$ 16,540 | \$ - | \$ 16,540 |
| Capital assets being depreciated: | | | |
| Water and sewer distribution systems | 40,663,447 | 766,165 | 41,429,612 |
| Buildings and building improvements | 1,493,824 | 179,998 | 1,673,822 |
| Vehicles | 549,800 | 14,196 | 563,996 |
| Machinery and equipment | 2,327,029 | 165,320 | 2,492,349 |
| Subtotal | 45,034,100 | 1,125,679 | 46,159,779 |
| Accumulated depreciation: | | | |
| Water and sewer distribution systems | 11,938,887 | 890,626 | 12,829,513 |
| Buildings and building improvements | 1,303,249 | 36,795 | 1,340,044 |
| Vehicles | 184,880 | 60,984 | 245,864 |
| Machinery and equipment | 933,208 | 55,123 | 988,331 |
| Subtotal | 14,360,224 | 1,043,528 | 15,403,752 |
| Net capital assets being depreciated | 30,673,876 | 82,151 | 30,756,027 |
| Net capital assets | <u>\$ 30,690,416</u> | <u>\$ 82,151</u> | <u>\$ 30,772,567</u> |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 54,818 |
| Public safety | 276,335 |
| Public works | 3,423,263 |
| Recreation and culture | 220,788 |
| Total governmental activities | <u>\$ 3,975,204</u> |
| Business-type activities - Water and sewer | <u>\$ 1,043,528</u> |

Component Units - Capital assets of the component units consist of a parcel of land purchased by the Downtown Development Authority in 2005.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|--|----------------------------|
| Due to/from Other Funds | | |
| General Fund | Community Development Block Grant Fund | \$ 59,220 |
| | Water and Sewer Fund | 558,355 |
| | Nonmajor governmental funds | <u>256,259</u> |
| | Total General Fund | 873,834 |
| Nonmajor governmental funds: | | |
| Special Revenue Funds: | | |
| Local Streets Fund | Nonmajor governmental funds | 566,227 |
| Compensated Absences Fund | General Fund | 9,542 |
| Street Improvement Fund | General Fund | 99,204 |
| Debt Service Funds - Water Bond Debt Fund | General Fund | <u>30,128</u> |
| | Total Special Revenue Funds | <u>705,101</u> |
| | Total | <u><u>\$ 1,578,935</u></u> |

Interfund transfers include the transfer of \$367,438 of Act 51 funding from Major Streets Fund to Local Streets Fund.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

| | Interest Rate | Principal Maturity Ranges | Beginning Balance | Additions (Reductions) | Ending Balance | Due Within One Year |
|---|------------------|---------------------------------|-------------------|---------------------------|----------------|------------------------|
| Governmental Activities - Other long-term obligations: | | | | | | |
| Installment purchase agreements: | | | | | | |
| Amount of issue - \$1,889,373 | 4.00% | \$1,687- | | | | |
| Maturing through various dates | 7.58% | \$48,038 | \$ 851,796 | \$ (182,646) | \$ 669,150 | \$ 174,699 |
| Compensated absences | | | 2,381,262 | (674,273) | 1,706,989 | 439,209 |
| Lawsuit settlement | | | - | 120,000 | 120,000 | 40,000 |
| Contingent liability - Personal property tax refunds | | | 690,000 | - | 690,000 | - |
| Total governmental activities | | | \$ 3,923,058 | \$ (736,919) | \$ 3,186,139 | \$ 653,908 |
| Business-type Activities - General obligation bonds: | | | | | | |
| Ecorse Creek Pollution Bond - Phase III: | | | | | | |
| Amount of issue - \$10,250,000 | | | | | | |
| Maturing through 2012 | 5.00% | \$750,000 | \$ 1,500,000 | \$ - | \$ 1,500,000 | \$ - |
| Ecorse Creek #1 Phase III: | | | | | | |
| Amount of issue - \$8,295,000 | 5.30% | \$485,000- | | | | |
| Maturing through 2010 | 6.0% | \$750,000 | 4,285,000 | (530,000) | 3,755,000 | 520,000 |
| Downriver Sewage Disposal Bonds: | | | | | | |
| Amount of issue - \$11,797,444 | 2.00% | \$62- | | | | |
| Maturing through various dates | 2.50% | \$29,622 | 9,047,084 | (519,724) | 8,527,360 | 534,128 |
| Total general obligation bonds | | | 14,832,084 | (1,049,724) | 13,782,360 | 1,054,128 |
| Other long-term obligations: | | | | | | |
| Basement flooding lawsuit settlement | | | - | 150,000 | 150,000 | 75,000 |
| Compensated absences | | | - | 139,530 | 139,530 | 28,123 |
| Total other long-term obligations | | | - | 289,530 | 289,530 | 103,123 |
| Total business-type activities | | | \$ 14,832,084 | \$ (760,194) | \$ 14,071,890 | \$ 1,157,251 |
| Component Units - Other long-term obligations - Lawsuit settlement | | | | | | |
| | | | \$ - | \$ 180,000 | \$ 180,000 | \$ 60,000 |

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above debt obligations are as follows (excludes compensated absence and contingent liabilities on personal property tax refunds):

| | Governmental Activities | | | Business-type Activities | | | Component Units | | |
|-----------|-------------------------|-----------|------------|--------------------------|--------------|---------------|-----------------|----------|------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2006 | \$ 214,699 | \$ 26,597 | \$ 241,296 | \$ 1,129,128 | \$ 502,270 | \$ 1,631,398 | \$ 60,000 | \$ - | \$ 60,000 |
| 2007 | 219,699 | 19,447 | 239,146 | 1,138,147 | 458,789 | 1,596,936 | 60,000 | - | 60,000 |
| 2008 | 205,614 | 12,451 | 218,065 | 1,067,673 | 414,829 | 1,482,502 | 60,000 | - | 60,000 |
| 2009 | 149,138 | 6,268 | 155,406 | 1,326,606 | 362,777 | 1,689,383 | - | - | - |
| 2010 | - | - | - | 1,332,232 | 302,896 | 1,635,128 | - | - | - |
| 2011-2015 | - | - | - | 5,412,095 | 734,708 | 6,146,803 | - | - | - |
| 2016-2020 | - | - | - | 2,455,159 | 149,489 | 2,604,648 | - | - | - |
| 2021 | - | - | - | 71,320 | 1,337 | 72,657 | - | - | - |
| Total | \$ 789,150 | \$ 64,763 | \$ 853,913 | \$ 13,932,360 | \$ 2,927,095 | \$ 16,859,455 | \$ 180,000 | \$ - | \$ 180,000 |

Note 8 - Restricted Assets

The restricted assets in the business-type activities consist of cash and cash equivalents restricted to provide for the replacement of Enterprise Fund assets. Also, monies received from a tax levy are restricted for the payment of outstanding Enterprise Fund debt. In addition, restricted assets result from the establishment of debt and operating reserves related to county sewage disposal system bonds. The restricted assets at June 30, 2005 consist of the following:

Cash and cash equivalents:

| | |
|---|--------------|
| Ecorse Creek replacement reserve | \$ 1,000,000 |
| Enterprise Fund debt service | 468,488 |
| Water and sewer capital improvement | 214,005 |
| Engineering and sewer improvement reserve | 100,734 |
| Total cash and cash equivalents | 1,783,227 |

Wayne County sewage disposal system:

| | |
|--|--------------|
| Assets held at the County for future debt payments | 1,770,529 |
| Sewer operation reserve | 295,483 |
| Total restricted assets | \$ 3,849,239 |

Current liabilities to be paid from restricted assets of \$1,054,128 at June 30, 2005 consist of the current portion of the Ecorse Creek pollution bonds and the Downriver Sewage Disposal System (Series A&B and State Revolving Fund) bonds, which are to be paid from debt levy revenue.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Police and Fire Retirement System and the Municipal Employees' Retirement System are single-employer defined benefit pension plans that are administered by the City of Lincoln Park, Michigan. These plans cover all full-time police and fire employees and general employees of the City. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of the following:

| | Police and Fire Retirement System | Municipal Employees' Retirement System |
|--|--|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 144 | 156 |
| Current employees: | | |
| Fully vested | 31 | 40 |
| Nonvested | 51 | 53 |
| Total current employees | 82 | 93 |

The plans do not issue a separate financial report.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the systems for these employees was established by City ordinance and negotiation with the police, fire, and general employees' competitive bargaining units and requires a contribution from the employees of 8.18 percent of qualifying wages for police and fire employees and 8.41 percent of qualifying wages for general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plans are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2005, the City's annual pension cost was as follows (rounded to the nearest thousand):

| | Police and Fire Retirement System | Municipal Employees' Retirement System |
|----------------------------------|---|---|
| Annual pension cost | \$ 928,000 | \$ 936,000 |
| Actual and required contribution | 928,000 | 936,000 |

The annual required contributions were determined as part of an actuarial valuation at June 30, 2004, using the entry age cost method for both the Police and Fire Retirement System and the Municipal Employees' Retirement System. Significant actuarial assumptions for both systems include: (i) an 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent to 8.3 percent per year; and (iii) 4.5 percent per year cost of living adjustments. Both plans assume that benefits will not increase after retirement, with the exception of police members retiring after January 1, 1996. These employees will receive an increase of \$300 in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 30 years.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Reserves - As of June 30, 2005, the plans' legally required reserves have been fully funded as follows:

| | Police and Fire Retirement System | Municipal Employees' Retirement System |
|--------------------------------------|---|---|
| Reserve for employees' contribution | \$ 4,596,573 | \$ 4,107,376 |
| Reserve for retired benefit payments | 26,461,422 | 12,069,744 |

Three-year Trend Information

| | Fiscal Year Ended June 30 | | |
|---------------------------------------|---------------------------|------------|------------|
| | 2003 | 2004 | 2005 |
| General Employees' Retirement System: | | | |
| Annual pension costs (APC) | \$ 833,000 | \$ 905,000 | \$ 936,000 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |
| Police and Fire Retirement System: | | | |
| Annual pension costs (APC) | \$ 683,000 | \$ 834,000 | \$ 928,000 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

Amounts are rounded to the nearest thousand.

Note 11 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) of the Internal Revenue Code. The plan was approved by City Council during the year ended June 30, 2005 and covers all full-time employees (with the exception of elected officials and commission or board members) hired on or after December 1, 2004.

Note 11 - Defined Contribution Pension Plan (Continued)

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Under the defined contribution plan, the City is required to contribute 7 percent of each participant's annual earnings. In accordance with the requirements, the City expensed \$23,439 during the current year.

Employees are permitted, but not required, to make contributions up the maximum allowed by law.

Note 12 - Other Postemployment Benefits

The City provides health care benefits to all employees covered by the Police and Fire Retirement System and the Municipal Employees' Retirement System upon retirement, in accordance with labor contracts. Currently, 308 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized in the General Fund, Water Fund, Major and Local Streets Funds, and Community Development Block Grant Fund as the insurance premiums become due; during the year, this totaled approximately \$1,367,000.

The City has established a Retirees Healthcare Trust Fund that currently has \$3,371,747 of net assets. No expenditures are being charged to the trust until it reaches a level to be specified by Council.

In addition, subsequent to year end, the City established a Retirement Health Savings Plan. Under the plan, the City contributes 2 percent of covered payroll for employees hired after December 1, 2004. Employees may also contribute to the plan.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2005

Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

| | |
|--------------------------------------|---------------------|
| Cumulative shortfall - June 30, 2004 | \$ (368,822) |
| Building permit revenue | 396,542 |
| Related direct expenditures | <u>(411,537)</u> |
| Cumulative shortfall - June 30, 2005 | <u>\$ (383,817)</u> |

Note 14 - Contingent Liability

The City is involved in certain legal matters that have not progressed to a point where any ultimate liability can be determined. As such, no liability has been reflected in these financial statements.

Note 15 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$300,000,000, with the City's share estimated to be approximately \$14,000,000. To date, the City has issued bonds of approximately \$12,000,000 to finance construction. The remaining liability to the City is estimated to be approximately \$2,000,000. The bonds are being paid through a court-ordered judgment levy.

During September 2005, the City (through Wayne County) issued \$547,400 in additional State Revolving Fund bonds. In addition, capital improvement and project completion bonds in the amount of \$437,575 and \$992,079, respectively, were approved for issuance by the City Council subsequent to year end. The County expects to issue the bonds during 2006.

Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Favorable (Unfavorable) Variance with Amended Budget |
|--|--------------------|-------------------|--------------|---|
| Fund Balance - Beginning of year | \$ 4,225,575 | \$ 4,225,575 | \$ 4,225,575 | \$ - |
| Resources (Inflows) | | | | |
| Property taxes: | | | | |
| Real and personal property taxes | 10,987,000 | 11,033,979 | 10,986,695 | (47,284) |
| Garbage and rubbish | 1,591,000 | 1,600,769 | 1,595,125 | (5,644) |
| Payments in lieu of taxes | 32,000 | - | - | - |
| Total property taxes | 12,610,000 | 12,634,748 | 12,581,820 | (52,928) |
| Federal sources | 13,200 | 49,853 | 48,435 | (1,418) |
| State sources: | | | | |
| Revenue-sharing | 5,430,000 | 5,392,719 | 5,375,610 | (17,109) |
| State grants | 135,000 | 130,729 | 122,784 | (7,945) |
| Liquor license fees | 20,000 | 21,507 | 21,507 | - |
| Total State sources | 5,585,000 | 5,544,955 | 5,519,901 | (25,054) |
| Licenses and permits: | | | | |
| Building, electrical, heating, and plumbing permits | 531,210 | 518,738 | 543,942 | 25,204 |
| Recreation programs | 466,050 | 465,010 | 476,145 | 11,135 |
| Motor pool rentals | 742,400 | 838,853 | 726,094 | (112,759) |
| Cable television franchise fee | 300,000 | 358,924 | 358,924 | - |
| Rental and inspection | 98,740 | 122,630 | 121,310 | (1,320) |
| Recycling and composting | 122,000 | 122,000 | 122,112 | 112 |
| Total licenses and permits | 2,260,400 | 2,426,155 | 2,348,527 | (77,628) |
| Fines and forfeitures | 1,383,000 | 1,383,000 | 1,286,445 | (96,555) |
| Interest and rent | 174,300 | 223,838 | 185,649 | (38,189) |
| Transfer from other funds | 30,000 | - | - | - |
| Other | 322,600 | 433,594 | 464,499 | 30,905 |
| Total resources (inflows) | 26,604,075 | 26,921,718 | 26,660,851 | (260,867) |
| Charges to Appropriations (Outflows) | | | | |
| General government: | | | | |
| General government | 2,068,815 | 2,904,964 | 2,240,526 | 664,438 |
| Mayor and Council | 214,760 | 239,694 | 231,482 | 8,212 |
| City Clerk | 188,040 | 196,833 | 194,632 | 2,201 |
| Election Commission | 60,600 | 54,011 | 52,955 | 1,056 |
| City Assessor | 96,965 | 110,359 | 106,558 | 3,801 |
| City Attorney | 175,065 | 116,084 | 115,606 | 478 |
| City Controller | 338,190 | 321,943 | 321,643 | 300 |
| Personnel and purchasing | 301,710 | 255,074 | 253,171 | 1,903 |
| Treasury department | 282,345 | 270,111 | 263,847 | 6,264 |
| Municipal building | 136,425 | 121,537 | 118,879 | 2,658 |
| Rental inspection | 130,955 | 133,619 | 132,187 | 1,432 |
| Total general government | 3,993,870 | 4,724,229 | 4,031,486 | 692,743 |

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Favorable (Unfavorable) Variance with Amended Budget |
|---|---------------------|---------------------|---------------------|---|
| Charges to Appropriations (Outflows) (Continued) | | | | |
| Public safety: | | | | |
| Police | \$ 7,848,835 | \$ 8,119,221 | \$ 7,965,927 | \$ 153,294 |
| Fire | 4,287,985 | 4,516,657 | 4,523,159 | (6,502) |
| Civil defense | 87,665 | 89,740 | 87,175 | 2,565 |
| Building department | 420,145 | 422,436 | 408,492 | 13,944 |
| District Court | 1,479,312 | 1,479,312 | 1,479,312 | - |
| Total public safety | 14,123,942 | 14,627,366 | 14,464,065 | 163,301 |
| Public works: | | | | |
| Department of Public Works | 1,431,700 | 1,118,145 | 1,082,370 | 35,775 |
| Planning Commission | 8,900 | 7,400 | 5,448 | 1,952 |
| Motor pool | 97,745 | 379,044 | 345,597 | 33,447 |
| Sidewalks | 100,000 | 75,756 | 75,756 | - |
| Street lighting | 453,000 | 475,000 | 473,920 | 1,080 |
| Sanitation | 1,849,000 | 1,845,181 | 1,826,783 | 18,398 |
| Total public works | 3,940,345 | 3,900,526 | 3,809,874 | 90,652 |
| Recreation and culture: | | | | |
| Kennedy Memorial Building | 67,220 | 78,642 | 77,548 | 1,094 |
| Historical Museum | 21,000 | 21,000 | 21,000 | - |
| Parks | 481,770 | 428,585 | 419,207 | 9,378 |
| Recreation and culture | 397,580 | 342,647 | 332,707 | 9,940 |
| Library | 288,980 | 280,944 | 221,294 | 59,650 |
| Social services | 232,000 | 223,440 | 227,885 | (4,445) |
| Community Center | 539,230 | 482,755 | 448,694 | 34,061 |
| Senior citizens | 184,845 | 171,467 | 157,776 | 13,691 |
| Total recreation and culture | 2,212,625 | 2,029,480 | 1,906,111 | 123,369 |
| Total charges to appropriations (outflows) | 24,270,782 | 25,281,601 | 24,211,536 | 1,070,065 |
| Fund Balance - End of year | \$ 2,333,293 | \$ 1,640,117 | \$ 2,449,315 | \$ 809,198 |

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Community Development Block Grant Fund Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Favorable (Unfavorable) Variance with Amended Budget |
|---|-----------------|-------------------|-------------|--|
| Fund Balance - Beginning of year | \$ - | \$ - | \$ - | \$ - |
| Resources (Inflows) | | | | |
| Federal sources | 2,252,068 | 2,252,068 | 1,085,976 | (1,166,092) |
| Other | - | - | 266,159 | 266,159 |
| Total resources (inflows) | 2,252,068 | 2,252,068 | 1,352,135 | (899,933) |
| Charges to Appropriations (Outflows) - | | | | |
| Health and welfare | 2,252,068 | 2,252,068 | 1,352,135 | 899,933 |
| Fund Balance - End of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Lincoln Park, Michigan

Required Supplementary Information Retirement Systems Schedule of Funding Progress Municipal Employees' Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a ÷ b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|-------------------------------------|--|---------------------------------|---|------------------------|---|
| 06/30/99 | \$ 19,553,000 | \$ 29,482,000 | \$ 9,929,000 | 66 | \$ 4,600,000 | 216 |
| 06/30/00 | 20,997,000 | 29,888,000 | 8,891,000 | 70 | 4,642,000 | 192 |
| 06/30/01 | 21,783,000 | 30,193,000 | 8,410,000 | 72 | 4,837,000 | 174 |
| 06/30/02 | 21,612,000 | 30,844,000 | 9,232,000 | 70 | 4,936,000 | 187 |
| 06/30/03 | 21,182,000 | 30,852,000 | 9,670,000 | 69 | 4,926,000 | 196 |
| 06/30/04* | 21,194,000 | 36,581,000 | 15,387,000 | 58 | 3,901,000 | 394 |

* At conclusion of early retirement window at 12/31/04

Retirement Systems Schedule of Employer Contributions Municipal Employees' Retirement System

| Year Ended June 30 | Annual Required Contribution | Actual Contribution | Percentage Contributed |
|-----------------------|---------------------------------|------------------------|---------------------------|
| 2000 | \$ 906,000 | \$ 906,000 | 100.00 |
| 2001 | 892,000 | 892,000 | 100.00 |
| 2002 | 841,000 | 841,000 | 100.00 |
| 2003 | 833,000 | 833,000 | 100.00 |
| 2004 | 905,000 | 905,000 | 100.00 |
| 2005 | 936,000 | 936,000 | 100.00 |

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of June 30, 2004, the latest actuarial valuation, follows:

| | |
|---|------------------------|
| Actuarial cost method | Entry age |
| Amortization method | Level percent, open |
| Amortization period (perpetual) | 30 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases* | 4.5% |
| *Includes inflation at | 4.5% |
| Additional salary increases attributable to seniority/merit | 0% to 3.8% |

City of Lincoln Park, Michigan

Required Supplementary Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a ÷ b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|-------------------------------------|--|---------------------------------|---|------------------------|---|
| 06/30/99 | \$ 42,067,000 | \$ 39,734,000 | \$ (2,333,000) | 106 | \$ 5,171,000 | - |
| 06/30/00 | 45,090,000 | 42,431,000 | (2,659,000) | 106 | 5,231,000 | - |
| 06/30/01 | 46,725,000 | 44,235,000 | (2,490,000) | 106 | 5,366,000 | - |
| 06/30/02 | 46,939,000 | 46,333,000 | (606,000) | 101 | 5,611,000 | - |
| 06/30/03 | 46,303,000 | 47,487,000 | 1,184,000 | 98 | 5,588,000 | 21 |
| 06/30/04 * | 43,611,000 | 54,615,000 | 11,004,000 | 80 | 4,347,000 | 253 |

* At conclusion of early retirement window at 12/31/04

Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

| Year Ended June 30 | Annual Required Contribution | Actual Contribution | Percentage Contributed |
|-----------------------|---------------------------------|------------------------|---------------------------|
| 2000 | \$ 651,000 | \$ 651,000 | 100.00 |
| 2001 | 551,000 | 551,000 | 100.00 |
| 2002 | 631,000 | 631,000 | 100.00 |
| 2003 | 683,000 | 683,000 | 100.00 |
| 2004 | 834,000 | 834,000 | 100.00 |
| 2005 | 928,000 | 928,000 | 100.00 |

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of June 30, 2004, the latest actuarial valuation, follows:

| | |
|---|------------------------|
| Actuarial cost method | Entry age |
| Amortization method | Level percent, open |
| Amortization period (perpetual) | 30 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases* | 4.5% |
| *Includes inflation at | 4.5% |
| Additional salary increases attributable to seniority/merit | 0% to 3.8% |

Other Supplemental Information

City of Lincoln Park, Michigan

| | Special Revenue Funds | | | |
|--|----------------------------|--------------------------|--------------------------|-------------------------|
| | Major Streets | Local Streets | Street Improvement | Compensated Absences |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,009,234 | \$ 113,678 | \$ 228,486 | \$ - |
| Receivables: | | | | |
| Taxes | - | - | 85,089 | - |
| Special assessments | - | - | - | - |
| Other | - | - | - | - |
| Due from other governmental units | 294,117 | 99,311 | - | - |
| Due from component units | - | - | 412 | - |
| Due from other funds | - | 566,227 | 99,204 | 9,542 |
| | <u>-</u> | <u>566,227</u> | <u>99,204</u> | <u>9,542</u> |
| Total assets | <u>\$ 1,303,351</u> | <u>\$ 779,216</u> | <u>\$ 413,191</u> | <u>\$ 9,542</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 15,940 | \$ 5,278 | \$ 51 | \$ 4,812 |
| Accrued and other liabilities | 20,549 | 16,776 | - | - |
| Due to other funds | 716,936 | 105,550 | - | - |
| Deferred revenue | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | 753,425 | 127,604 | 51 | 4,812 |
| Fund Balances | | | | |
| Designated | 337,354 | 349,445 | 10,000 | - |
| Undesignated | 212,572 | 302,167 | 403,140 | 4,730 |
| | <u>549,926</u> | <u>651,612</u> | <u>413,140</u> | <u>4,730</u> |
| Total fund balance | 549,926 | 651,612 | 413,140 | 4,730 |
| Total liabilities and fund balances | <u>\$ 1,303,351</u> | <u>\$ 779,216</u> | <u>\$ 413,191</u> | <u>\$ 9,542</u> |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

| <u>Debt Service Funds</u> | | | |
|---------------------------|---------------------|--------------------------|-----------------------|
| | | | Total |
| | | | Nonmajor |
| General Debt | Water Bonds Debt | Capital Projects Fund | Governmental Funds |
| \$ 105,556 | \$ 420,631 | \$ 41,528 | \$ 1,919,113 |
| - | - | - | 85,089 |
| - | - | 26,968 | 26,968 |
| - | 2,267 | - | 2,267 |
| - | - | - | 393,428 |
| - | - | - | 412 |
| - | 30,128 | - | 705,101 |
| <u>\$ 105,556</u> | <u>\$ 453,026</u> | <u>\$ 68,496</u> | <u>\$ 3,132,378</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ 26,081 |
| - | - | - | 37,325 |
| - | - | - | 822,486 |
| - | - | 26,968 | 26,968 |
| - | - | 26,968 | 912,860 |
| - | - | - | 696,799 |
| <u>105,556</u> | <u>453,026</u> | <u>41,528</u> | <u>1,522,719</u> |
| <u>105,556</u> | <u>453,026</u> | <u>41,528</u> | <u>2,219,518</u> |
| <u>\$ 105,556</u> | <u>\$ 453,026</u> | <u>\$ 68,496</u> | <u>\$ 3,132,378</u> |

City of Lincoln Park, Michigan

| | Special Revenue Funds | | | |
|--|-----------------------|-------------------|-----------------------|-------------------------|
| | Major Streets | Local Streets | Street Improvement | Compensated Absences |
| Revenue | | | | |
| Property taxes | \$ - | \$ - | \$ 1,792,133 | \$ - |
| Federal grants | 2,000 | 1,500 | - | - |
| State sources | 1,897,834 | 604,643 | - | - |
| Interest and rentals | 11,640 | 2,972 | 16,585 | 62 |
| Other | - | - | - | - |
| Total revenue | 1,911,474 | 609,115 | 1,808,718 | 62 |
| Expenditures | | | | |
| Current - Public safety | - | - | - | 379,587 |
| Current - Public works | 1,378,890 | 735,640 | 1,824,912 | - |
| Current - General government | - | - | - | 132,702 |
| Capital outlay | - | - | - | - |
| Total expenditures | 1,378,890 | 735,640 | 1,824,912 | 512,289 |
| Excess of Revenue Over (Under) Expenditures | 532,584 | (126,525) | (16,194) | (512,227) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | 367,438 | - | - |
| Transfers out | (367,438) | - | - | - |
| Total other financing sources (uses) | (367,438) | 367,438 | - | - |
| Net Change in Fund Balance | 165,146 | 240,913 | (16,194) | (512,227) |
| Fund Balances - Beginning of year | 384,780 | 410,699 | 429,334 | 516,957 |
| Fund Balances - End of year | <u>\$ 549,926</u> | <u>\$ 651,612</u> | <u>\$ 413,140</u> | <u>\$ 4,730</u> |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

| Debt Service Funds | | | | Total |
|--------------------|---------------------|--------------------------|-----------------------|----------|
| | | | | Nonmajor |
| General Debt | Water Bonds Debt | Capital Projects Fund | Governmental Funds | |
| \$ 3,000 | \$ - | \$ - | \$ 1,795,133 | |
| - | - | - | 3,500 | |
| - | - | - | 2,502,477 | |
| 1,237 | 580 | 641 | 33,717 | |
| - | - | 34,849 | 34,849 | |
| 4,237 | 580 | 35,490 | 4,369,676 | |
| - | - | - | 379,587 | |
| - | - | - | 3,939,442 | |
| - | - | - | 132,702 | |
| - | - | 8,450 | 8,450 | |
| - | - | 8,450 | 4,460,181 | |
| 4,237 | 580 | 27,040 | (90,505) | |
| - | - | - | 367,438 | |
| - | - | - | (367,438) | |
| - | - | - | - | |
| 4,237 | 580 | 27,040 | (90,505) | |
| 101,319 | 452,446 | 14,488 | 2,310,023 | |
| <u>\$ 105,556</u> | <u>\$ 453,026</u> | <u>\$ 41,528</u> | <u>\$ 2,219,518</u> | |

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2005

| | Pension and Other Employee Benefits Trust Funds | | | | Agency Funds | | |
|---|---|---------------------------------------|-----------------------------|----------------------|---------------------------|------------------|------------------|
| | Police and Fire Retirement | Municipal Employees' Retirement | Retirees' Health Benefit | Totals | Current Tax Collection | Payroll | Totals |
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 1,905,883 | \$ 374,847 | \$ 1,900,661 | \$ 4,181,391 | \$ 1,787 | \$ 11,599 | \$ 13,386 |
| Investments | 28,956,016 | 15,748,401 | 1,471,086 | 46,175,503 | - | - | - |
| Accrued interest | 196,279 | 53,872 | - | 250,151 | - | - | - |
| Total assets | 31,058,178 | 16,177,120 | 3,371,747 | 50,607,045 | <u>\$ 1,787</u> | <u>\$ 11,599</u> | <u>\$ 13,386</u> |
| Liabilities | | | | | | | |
| Accounts payable | 520 | - | - | 520 | \$ - | \$ - | \$ - |
| Accrued and other liabilities | - | - | - | - | 1,787 | 11,599 | 13,386 |
| Total liabilities | 520 | - | - | 520 | <u>\$ 1,787</u> | <u>\$ 11,599</u> | <u>\$ 13,386</u> |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 31,057,658</u> | <u>\$ 16,177,120</u> | <u>\$ 3,371,747</u> | <u>\$ 50,606,525</u> | | | |

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2005

| | Police and Fire Retirement System | Municipal Employees' Retirement System | Retirees' Health Benefit | Totals |
|---|---|---|--------------------------------|----------------------|
| Additions | | | | |
| Contributions: | | | | |
| Employer | \$ 928,116 | \$ 936,592 | \$ - | \$ 1,864,708 |
| Plan members | 509,635 | 477,554 | - | 987,189 |
| Health benefit | - | - | 345,240 | 345,240 |
| Total contributions | 1,437,751 | 1,414,146 | 345,240 | 3,197,137 |
| Investment earnings: | | | | |
| Net increase (decrease) in fair value of investments | 828,088 | 1,191,537 | (20,012) | 1,999,613 |
| Interest and dividends | 997,243 | 829,098 | 89,126 | 1,915,467 |
| Investment expenses | (275,228) | (133,343) | (9,018) | (417,589) |
| Total investment earnings | 1,550,103 | 1,887,292 | 60,096 | 3,497,491 |
| Total additions | 2,987,854 | 3,301,438 | 405,336 | 6,694,628 |
| Deductions | | | | |
| Benefit payments | 3,691,247 | 2,456,469 | - | 6,147,716 |
| Refunds of contributions | 5,615,772 | 4,158,646 | - | 9,774,418 |
| Administrative expenses | 20,756 | 6,741 | - | 27,497 |
| Total deductions | 9,327,775 | 6,621,856 | - | 15,949,631 |
| Net Increase (Decrease) in Net Assets | (6,339,921) | (3,320,418) | 405,336 | (9,255,003) |
| Net Assets Held in Trust for Pension and Other Employee Benefits | | | | |
| Beginning of year | 37,397,579 | 19,497,538 | 2,966,411 | 59,861,528 |
| End of year | <u>\$ 31,057,658</u> | <u>\$ 16,177,120</u> | <u>\$ 3,371,747</u> | <u>\$ 50,606,525</u> |

City of Lincoln Park, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Lincoln Park, Michigan

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Mayor and City Council
City of Lincoln Park, Michigan

We have audited the basic financial statements of the City of Lincoln Park, Michigan for the year ended June 30, 2005 and have issued our report thereon dated November 23, 2005. The opinion of the basic financial statements has been qualified as the City has not recorded the value of land it owns in its government-wide financial statements. Those basic financial statements are the responsibility of the management of the City of Lincoln Park, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Lincoln Park, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 23, 2005

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Mayor and City Council
City of Lincoln Park, Michigan

We have audited the financial statements of the City of Lincoln Park, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated November 23, 2005. The opinion of the basic financial statements has been qualified as the City has not recorded the value of land it owns in its government-wide financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lincoln Park, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lincoln Park, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 05-01 to be a material weakness.

To the Mayor and City Council
City of Lincoln Park, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln Park, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the mayor, City Council, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 23, 2005



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the Mayor and City Council
City of Lincoln Park, Michigan

Compliance

We have audited the compliance of the City of Lincoln Park, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Lincoln Park, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Lincoln Park, Michigan's management. Our responsibility is to express an opinion on the City of Lincoln Park, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lincoln Park, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lincoln Park, Michigan's compliance with those requirements.

In our opinion, the City of Lincoln Park, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 05-02.

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To the Mayor and City Council
City of Lincoln Park, Michigan

Internal Control Over Compliance

The management of the City of Lincoln Park, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lincoln Park, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the mayor, City Council, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 23, 2005



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City of Lincoln Park, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

| Federal Agency/Pass-through Agency/ Program Title | CFDA Number | Pass-through Entity Project/Grant Number | Award Amount | Federal Expenditures |
|--|----------------|---|-----------------|----------------------------|
| U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant: | | | | |
| Program year 1998-B-98-MC26007 | 14.218 | N/A | \$ 931,000 | \$ 7,680 |
| Program year 2002-B-01-MC26007 | 14.218 | N/A | 1,016,000 | 7,271 |
| Program year 2003-B-02-MC26007 | 14.218 | N/A | 1,000,000 | 714,154 |
| Program year 2004-B-03-MC26007 | 14.218 | N/A | 989,000 | 581,537 |
| Total Community Development Block Grant | | | 3,936,000 | 1,310,642 |
| U.S. Department of Forestry - Passed through the State of Michigan - Emerald Ash Borer (EAB) Tree Planting Grant | 10.664 | EAB 04-36 | 12,600 | 12,600 |
| Department of Homeland Security - Passed through the State of Michigan: | | | | |
| EMPG | 97.067 | Unknown | 12,872 | 12,872 |
| Pre-disaster Mitigation Grant | 97.047 | N/A | 26,463 | 23,818 |
| A.L.S. Upgrade | 97.044 | EMW-2004-FG-08650 | 84,033 | 7,434 |
| Total Department of Homeland Security | | | 123,368 | 44,124 |
| U.S. Department of Justice - Passed through the State of Michigan: | | | | |
| 2002 Local Law Enforcement Block Grant | 16.592 | 2002-LB-BX-2290 | 45,285 | 23,336 |
| 2003 Local Law Enforcement Block Grant | 16.592 | 2003-LB-BX-0950 | 36,232 | - |
| 2004 Local Law Enforcement Block Grant | 16.592 | 2004-LB-BX-1462 | 10,890 | - |
| The Bulletproof Vest Program, BJA | 16.607 | N/A | 6,647 | 2,063 |
| Total U.S. Department of Justice | | | 99,054 | 25,399 |
| Total federal awards | | | | <u>\$ 1,392,765</u> |

City of Lincoln Park, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Lincoln Park, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The City had the following housing rehabilitation loan balances outstanding at June 30, 2005. These loan balances are not included in the federal expenditures presented in the schedule.

| Cluster/Program Title | CFDA Number | Amount Outstanding |
|---|----------------|-----------------------|
| Community Development Block Grant Rehabilitation Loans | 14.218 | \$ 193,743 |

In addition, the City has liens on homes that received housing rehabilitation services in the amount of \$2,139,052.

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

| Federal Program Title | CFDA Number | Amount Provided to Subrecipients |
|------------------------------------|----------------|--|
| Community Development Block Grant: | | |
| County Homeless Shelter | 14.218 | \$ 2,500 |
| Citizen Patrol Watch | 14.218 | 2,298 |
| First Step Program | 14.218 | 1,500 |
| Senior Alliance | 14.218 | 3,300 |
| The Information Center | 14.218 | 1,050 |
| Community Policing | 14.218 | 26,638 |
| The Guidance Center | 14.218 | 1,500 |

City of Lincoln Park, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 4 - Grant Section Auditor's Report

Management has reconciled the expenditures reported in the schedule of expenditures of federal awards to those amounts reported in the annual or final close-out reports.

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|--------------|--|
| 14.218 | U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

| Reference Number | Findings |
|---------------------|--|
| 05-01 | <p>Finding Type - Reportable condition</p> <p>Condition - The City of Lincoln Park did not reconcile its general ledger cash balances to the bank statements in a timely manner.</p> <p>Description - In order to maintain adequate internal control, timely bank reconciliations should be prepared. We recommend, and the City of Lincoln Park concurs, that timely bank reconciliations be prepared in the future.</p> |

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section III - Federal Program Audit Findings

| Reference Number | Findings |
|---------------------|---|
| 05-02 | <p>U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant - 14.218</p> <p>Finding Type - Noncompliance</p> <p>Criteria - In order to comply with Davis Bacon requirements, the City should review contractor payroll submissions and certifications on a timely basis, ascertain that the laborers and operators were paid prevailing wage rates, and reconcile job site interviews performed to the certified payroll list.</p> <p>Condition - The City performed a review of contractor payroll submissions and certifications on a timely basis to ascertain that the laborers and operators were paid prevailing wage rates. The City had no documentation available to support the performance of job site interviews to verify the certified payroll list according to Davis Bacon requirements.</p> <p>Questioned Costs - Unknown</p> <p>Context - The City believes that the job site interviews were performed, but they cannot locate documentation in the file to support this assertion.</p> <p>Cause and Effect - Contractor payroll submission and certifications were reviewed timely but no documentation existed to support job site interviews. However, per review of payroll records, the payroll records indicate that the laborers and operators were paid wages that complied with federal prevailing wage rates; however, job site interview documentation was not available to verify the wages paid.</p> <p>Recommendation - The City should perform and document job site interviews to the certified payroll list according to Davis Bacon requirements on a regular basis to ensure compliance with federal requirements.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City has committed to ensuring documentation is retained and requirements for compliance with Davis Bacon is adhered to with established procedures for regular performance of job site interviews.</p> |



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

August 26, 2005

To the Honorable Judges of the
25th District Court
City of Lincoln Park
1475 Cleophus
Lincoln Park, Michigan 48146

Dear Judges:

We recently completed our audit of the 25th District Court's basic financial statements for the year ended June 30, 2005. In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

Management's Discussion and Analysis

As you know, as of June 30, 2004, the Court implemented Governmental Accounting Standards Board statement number 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. This pronouncement required the recording of capital asset and long-term debt, such as employee compensated absences. It also requires a narrative called the "management's discussion and analysis" which sets forth summarized financial information and lets the reader know if the Court is better off or worse off than in the previous year. The capital asset and debt provisions were implemented; however, the Court has not provided a management's discussion and analysis and as such, a statement is made to that effect in our auditor's opinion. We encourage the Court to consider including this narrative in next year's report. We would be happy to provide a template for your use in customizing it for the Court.

Reportable Conditions

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In planning and performing our audit of the financial statements of the Court, we considered the Court's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the following item to be considered a material weakness and reportable condition under standards established by the American Institute of Certified Public Accountants.



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August 26, 2005

During the year, the Court did not fully reconcile its general ledger cash balances for the General Fund operation account to the bank statements in a timely manner. In order to maintain adequate internal control, the Court needs to reconcile cash balances from the bank statements to the general ledger on a timely basis. The bank reconciliations were reconciled shortly after the fiscal year end and we understand that the Court is currently reconciling the bank accounts timely. We recommend that the reconciliation of cash be prepared monthly, initialed, and dated by the preparer to document timeliness, and initialed and dated by the individual who reviews the bank reconciliations.

Part-time Employees and Payroll Taxes

During our testing, we noted that federal income taxes are not being withheld from the wages of three part-time employees. We understand that this is done per the request of the employees. However, this does create some risk to the Court because the Court, as the employer, is generally responsible for withholding and remitting taxes for all employees. IRS Publication 15, Circular E may be helpful as it specifically addresses the responsibilities of the employer as it relates to withholding, depositing, reporting, and paying income taxes.

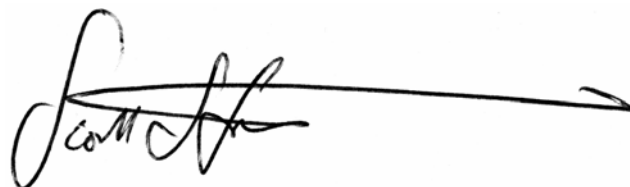
We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the Court staff during the audit. We appreciate the opportunity to serve as your auditors and present these recommendations. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Scott M. Janssen

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